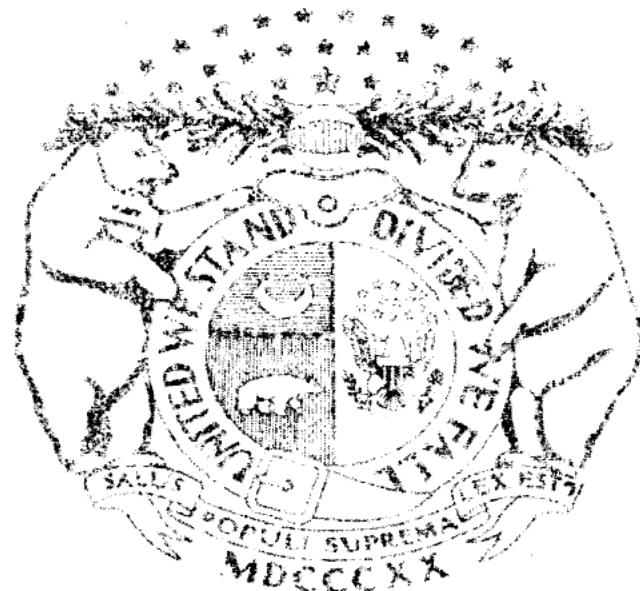


REPORT OF
FINANCIAL EXAMINATION

WATKINS LIFE AND BENEFIT ASSOCIATION

AS OF
DECEMBER 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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December 6, 2004
Dexter, Missouri

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Jorge Gomez, Wisconsin, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of the

Watkins Life and Benefit Association

also referred to as the "Association." The examination was conducted at the Association's home office at 301 North Walnut Street, Dexter, Missouri 63841, telephone number (573) 624-3548. This examination began on November 15, 2004, and concluded December 6, 2004.

SCOPE OF EXAMINATION

Period Covered

The prior full scope financial examination of the Watkins Life & Benefit Association was performed as of December 31, 2000.

The current full scope financial examination covers the period from January 1, 2001, through December 31, 2003. This examination also included material transactions and/or events occurring after December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Association's independent auditors were made available to the examiner. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments Previous Examination

There were no comments or recommendations in the previous examination report.

HISTORY

General

The Association was organized and commenced business in April 1951, as the Watkins Life & Benefit Association of Dexter, Missouri to write life insurance in conjunction with the funeral services provided by Watkins and Sons Funeral Home. The Watkins Life & Benefit Association is an unincorporated association, which is owned by its certificate holders.

The Association operates as an assessment plan under the provisions of Chapter 377 RSMo "Assessment Plan and Stipulated Premium Plan Life Insurance."

Management

In accordance with its Articles of Association and Bylaws, which call for seven directors, the directors elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Richard T. Watkins Dexter, MO	Funeral Director Watkins & Sons Funeral Home
Marsh Watkins Dexter, MO	Funeral Director Watkins & Sons Funeral Home
Earl N. Watkins Dexter, MO	Funeral Director Watkins & Sons Funeral Home
Michael D. Watkins Dexter, MO	President and Sales Agent Watkins Agency, Inc.
Stephen L. Watkins Dexter, MO	Funeral Director Watkins & Sons Funeral Home
Patsy Watkins Dexter, MO	Homemaker
Dixie Watkins Dexter, MO	Homemaker

Officers elected and serving at December 31, 2003:

<u>Name</u>	<u>Office</u>
Michael D. Watkins	President
Richard T. Watkins	Vice President
Marsh Watkins	Secretary
Richard T. Watkins	Assistant Secretary
Stephen T. Watkins	Treasurer
Richard T. Watkins	Assistant Treasurer

Conflict of Interest

Conflict of Interest Statements are executed annually by all directors and officers of the Association. Signed statements were reviewed for all officers and directors for each year under examination with no material conflicts indicated.

The Association has a service agreement with the Watkins Agency, Inc., whereby the agency provides administrative and accounting services to the Association. The president of the Watkins Agency, Inc. is Michael Watkins, who is also the president and a member of the board of directors of the Association. The service agreement and payments made according to the agreement were reviewed and appeared to be reasonable.

The Association also has a general agency agreement with the Watkins Agency, Inc. The Watkins Agency, Inc. writes almost all the business of the Association and receives commissions on business written. The two primary agents of this agency are Michael Watkins and Stephen Watkins, who are both officers and members of the board of directors of the Association. The commission payment procedures were reviewed and appear reasonable.

Corporate Records

A review was made of the Articles of Association and Bylaws of the Association. There were no significant amendments to either of these documents during the period under examination. The minutes of the meetings of the certificate holders and board of directors were reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions.

The minutes do not reflect the Board's review and approval of the Report of Financial Examination as of December 31, 2000. It is recommended that the Board review and approve all Examination Reports and so indicate in the meeting minutes.

Acquisitions, Mergers and Major Corporate Events

There were no major acquisitions or mergers affecting the Association.

Surplus Debentures

None

AFFILIATED COMPANIES

The Association does not have any affiliates and thus is not subject to Chapter 382 RSMo (Insurance Holding Companies).

FIDELITY BOND AND OTHER INSURANCE

The Association is included as a named insured on the liability portion of Watkins and Sons Funeral Home's insurance policy. The policy provides general liability coverage of \$1,000,000 and employee dishonesty coverage of \$100,000. The Association's employee dishonesty coverage of \$100,000 complies with the minimum amount of insurance suggested by the NAIC guidelines for a company of this size.

EMPLOYEE BENEFITS

The Association has no employees. All employee services are provided through a service agreement with Watkins Agency, Inc. The Watkins Agency, Inc. provides all policy administration, accounting, claims settlement procedures and office space for the Association. The Association pays the Watkins Agency, Inc. 15% of premiums written for providing these services and facilities.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The reserve requirement for the assessment plan business of the Association for 2003 was as follows:

Beneficiary fund requirement per Section 377.020 RSMo	\$30,000
Emergency fund requirement per Section 377.050 RSMo	<u>22,053</u>
Total Deposit Requirement	<u>\$52,058</u>

As of December 31, 2003, the Association had the following securities on deposit with the Missouri Department of Insurance:

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$75,000	\$75,235	\$75,184

This deposit was sufficient to meet the above requirements for the state of Missouri per the provisions of Chapter 377 RSMo.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Association is licensed with the Missouri Department of Insurance under Chapter 377 RSMo, to write assessment plan life insurance. The company has no plans to expand into other lines of business or territories.

The Association's primary plan of operation is the writing and renewal of life insurance policies through two general agents. The general agents' contracts were reviewed and appear reasonable. The agents maintain current licenses with the state of Missouri to sell life insurance.

Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The Association has properly filed its forms with the Missouri Department of Insurance; the most recent filing was in 1988. The Association has no formal marketing procedures. Most business is obtained through additional insurance from current policyholders. New customers are usually gained through word of mouth advertising.

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a market conduct report. However, no market conduct examination has ever been performed on the Association. The Association does not maintain a complaint register because it has never had a complaint. This is mainly due to the nature of the policies, which provide no exclusions for payment of death benefits. The only reason for denial would occur when inaccurate information is reported in the original application.

REINSURANCE

The Association has no reinsurance.

ACCOUNTS AND RECORDS

General

The Association's accounting records are maintained on a PC based system consisting of Filepro+ Database software. The Association keeps a detailed general ledger and produces quarterly financial statements. The trial balance and general ledger reports for the years under examination were traced to the Association's Annual Statements. Accounting records appear to be reliable. The Association is audited annually by Schott & Van de Ven, CPAs.

A review was made of the last CPA audit workpapers. These workpapers were utilized in the course of this examination as deemed appropriate.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of December 31, 2003, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual financial statement item.

ASSETS

<u>Assets</u>	<u>Ledger and Non-ledger</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Bonds and Stocks	\$279,114	0	\$279,114
Cash	106,994	0	106,994
Accrued Interest on Investments	2,114	0	2,114
Market Value of Stocks over Book Value	21,440	209	21,231
Assessments Due and Unpaid	<u>102</u>	<u>102</u>	<u>0</u>
Total Assets	<u><u>\$409,765</u></u>	<u><u>\$311</u></u>	<u><u>\$409,454</u></u>

LIABILITIES AND RESERVES

Liabilities

Death Claims Incurred in the Current Year, Reported in Following Year	\$1,000
Advance Premiums or Assessments	<u>19,226</u>
Total Liabilities	<u><u>\$20,226</u></u>

Reserves

Emergency Fund Reserve	\$22,058
Guaranty Fund Reserve	30,000
Unassigned Fund Reserve	<u>377,170</u>
Total Reserves	<u><u>\$389,228</u></u>
Total Liabilities & Reserves	<u><u>\$409,454</u></u>

INCOME AND DISBURSEMENTS

Income

Membership Fees / Assessments	\$64,580
Net Investment Income	<u>28,917</u>
Total Income	<u>\$93,497</u>

Disbursements

Death Claims	\$75,600
Commissions & Fees Paid to Agents	4,735
Salaries & Compensation to Officers & Employees	13,187
Taxes Licenses & Fees (Excluding Federal Income Tax)	545
General Expenses	<u>7,854</u>
Total Disbursements	<u>\$101,921</u>

Net Operating Gain / (Loss) (\$8,424)

Federal Income Taxes 0

Net Income / (Loss) (\$8,424)

NOTES TO FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Corporate Records

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The Board meeting minutes do not reflect the Board's review and approval of the Report of Financial Examination as of December 31, 2000. It is recommended that the Board review and approve all Examination Reports and so indicate in the meeting minutes.

SUBSEQUENT EVENTS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors and officers of the Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Thomas J. Cunningham, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Association, its agents or other persons examined or ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Thomas J. Cunningham, CPA, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 20th day of December, 2004
My commission expires:

Oct. 7, 2005


Rayna S. Rice
Notary Public

RAYNA S. RICE
Notary Public - State of Missouri
County of Cole
My Commission Expires Oct. 7, 2005

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


J. Douglas Conley,
CFE, FLMI, CIE, AIAF, ARe
Audit Manager
Missouri Department of Insurance

Watkins Life & Benefit Association

301 N. Walnut Street - P. O. Box 96
Dexter, MO 63841-0096

Phone (573) 624-3548

March 3, 2005

Kirk Schmidt, CFE, CPA
Chief Financial Examiner
Missouri Department of Insurance
P. O. Box 690
Jefferson City, MO 65102-0690

Mr. Schmidt:

This letter is submitted to respond to the Financial Examination Report for the period ending December 31, 2003 of the Watkins Life and Benefit Association.

We have no rebuttals to the report and have no objections to our comments being included in the report as a public document.

Page 11 of the current Examination indicates that we failed to submit the last Financial Examination for the period ending December 31, 2000 to the Board of Directors for review and approval. Although the report was previously submitted to each Director individually for review we did fail to approve the Examination. We have corrected this oversight and submitted the Examination of December 31, 2000 to the Board for approval. A special meeting was held on February 28, 2005 where the Examination was reviewed and approved by the Board of Directors.

We would like to thank the Department auditor, Thomas J. Cunningham, for his professional and courteous conduct while on site for the examination.

Thank You,



Michael D. Watkins
President